



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0342	Title:	Student scholarship organizations and tax credits for donations for scholarships
Primary Sponsor:	Essmann, Jeff	Status:	As Amended in Senate Committee

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|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$66,226	(\$359,630)	(\$1,699,282)	(\$2,782,111)
Revenue:				
General Fund	(\$553,000)	(\$1,603,700)	(\$2,549,330)	(\$3,400,397)
Net Impact-General Fund Balance:	<u>(\$619,226)</u>	<u>(\$1,244,070)</u>	<u>(\$850,048)</u>	<u>(\$618,286)</u>

Description of fiscal impact: This bill would allow a tax credit for donations to provide scholarships for private schools. The reduction in general fund revenue is estimated to be about \$0.6 million in FY 2010 increasing to \$3.4 million in FY 2013. The Department of Revenue's costs to administer the credit would be about \$60,000 per year. The decrease in direct state aid, guaranteed tax base aid, Indian education for all, and county retirement GTB to K-12 public schools for the enrollment decline of 415 public school students each year who would transfer to private schools as a consequence of this bill is anticipated to save the state \$0.4 million dollars in FY 2011, \$1.7 million in FY 2012, and \$2.8 million in FY 2013.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would allow a credit against individual income tax or corporation license tax for 80% of contributions to a charitable organization that provides scholarships for students to attend a private school, to enroll in a distance learning program, or to pay for transportation to a public school in another district. The credit is limited to \$1,000 for a single taxpayer or a married taxpayer filing a separate return and \$2,000 for a married couple filing a joint return. The limit for a corporation is \$250,000. If the credit is more than the taxpayer's tax liability, the excess credit would not be refunded, but could be carried forward for up to five years

2. For donations to a scholarship organization to be eligible for the credit, the scholarships must be used for tuition and fees at a private school or a distance learning program, recipients must live in a household with income less than 150% of the federal limit for reduced-price school lunches or be in foster care, scholarships must average \$2,500 or less, and the organization must grant three-fourths of its scholarships to public school students who switch to a private school, a distance education program, or an out-of-district public school.
3. The number and amount of credits that would be claimed under this bill is unknown. The number of scholarships would be limited by the number of students who would switch schools if offered a scholarship, the ability of private schools to add capacity for more students, and donations to scholarship organizations. The number of scholarships is estimated by assuming that, following passage of this bill, private school enrollment in Montana would increase by 5% of the current number of students each of the first four years it is in effect, that the additional students would each receive \$2,500 scholarships, that for every three new students who receive scholarships one existing student receives a scholarship, and that 90% of students who receive a scholarship in one year continue to receive scholarships in succeeding years.
4. Scholarship organizations are assumed to receive enough donations to fund these scholarships. Individual donors are assumed to donate no more than the amount that would give them the maximum credit, so that credits are 80% of the amount granted in scholarships.
5. For the 2008-2009 school year, 150% of the federal income limit for reduced-price school lunches is \$28,860 per household plus \$9,990 for each household member after the first. For example, for a family of four, it is \$58,830 (\$28,860 + 3 x \$9,990). On 2007 tax returns, 60% of dependents were claimed on returns where the income was below the limit implied by the number of taxpayers and dependents reported on the return. Because of this, the income limit for scholarships is unlikely to limit the number of scholarships.
6. A search of several private school directories indicated that there are about 8,300 students in private schools in Montana.
7. For the 2009-2010 school year there would be 415 (5% x 8,300) scholarships granted to new private school students and 138 (1/3 x 415) scholarships granted to continuing private school students. Total scholarships would be \$1,382,500 (\$2,500 x (415 + 138)). Credits based on these scholarships would be \$1,106,000 (80% x \$1,382,500). Half of the donations for scholarships for the 2009-2010 school year would be made in the fall of 2009. Credits for these donations would be claimed on returns filed the next spring, in FY 2010. Half of the donations for the 2009-2010 school year would be made in the spring of 2009. Credits for these donations would be claimed in FY 2011. The following two tables show credits by school year and fiscal year:

School Year	New Scholarships		Continuing Scholarships			Total	Value	Credit
	New Students	Continuing Students	2nd Year Students	3rd Year Students	4th Year Students			
2009-2010	415	138				553	\$1,382,500	\$1,106,000
2010-2011	415	138	498			1,051	\$2,626,750	\$2,101,400
2011-2012	415	138	498	448		1,499	\$3,746,575	\$2,997,260
2012-2013	415	138	498	448	403	1,902	\$4,754,418	\$3,803,534

School Year	FY 2010	FY 2011	FY 2012	FY 2013
2009-2010	\$553,000	\$553,000		
2010-2011		\$1,050,700	\$1,050,700	
2011-2012			\$1,498,630	\$1,498,630
2012-2013				\$1,901,767
Total	\$553,000	\$1,603,700	\$2,549,330	\$3,400,397

8. This bill would require the Department of Revenue to process and pre-approve credit applications, verify that taxpayers have made the donations for which they have applied to receive a credit, review annual reports from scholarship organizations to verify that they and the students they grant scholarships meet the requirements of this bill, and process additional documents filed with claimants' tax returns.
9. To perform these additional duties, the department would need an additional 1.0 FTE tax examiner. This position would be filled in July, 2009 to begin the credit pre-approval process. Personnel costs would be \$50,330 per year and operating costs would be \$7,296 in FY 2010 and \$7,696 per year in later years. One time costs to set up a new employee would be \$4,900 in FY 2010.
10. The department would need to develop a new form for taxpayers to apply to receive the credit. The cost for developing the new form would be \$1,700 in FY 2010. Changes to income tax returns and instructions would be made as part of the annual update process

Office of Public Instruction

11. Public school enrollment in the fall of 2008 was 141,969. The Department of Revenue estimated in assumption #7 there would be 415 new private school students each year from public schools. The Office of Public Instruction estimates these students will transfer from public schools to private schools in response to an average \$2,500 scholarship.
12. Once a public school student transfers to a private school, the student will continue to be eligible for the scholarship (the student meets the requirement that the student was a full-time public school student when first granted a scholarship).
13. These 415 students will reduce ANB counts in FY 2011 by 431 ANB, the year after they transfer out of the public school system. However, with 3-year averaging of ANB (20-9-311, MCA.) there would be less than a 431 ANB decrease in school district budgets.
14. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.
15. The per-ANB entitlements are projected to be \$5,003 for elementary ANB and \$6,405 for high school ANB in FY 2011 and beyond.
16. The savings to the state general fund for decreased direct state aid, guaranteed tax base aid, county retirement, and Indian education for all the decrease of these students in the public school system is \$0.4 million in FY 2011, \$1.8 million in FY 2012, and \$2.8 million in FY 2013.
17. The Office of Public Instruction will need 0.04 FTE (\$2,000) to meet its obligations under SB 342.

	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$50,330	\$50,330	\$51,588	\$52,878
Operating Expenses	\$8,996	\$7,696	\$7,696	\$7,696
Equipment	\$4,900	\$0	\$0	\$0
TOTAL Expenditures	\$64,226	\$58,026	\$59,284	\$60,574
<u>Funding of Expenditures:</u>				
General Fund (01)	\$64,226	\$58,026	\$59,284	\$60,574

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
Office of Public Instruction				
FTE	0.04	0.04	0.04	0.04
<u>Expenditures:</u>				
Personal Services	\$2,000	\$2,000	\$2,000	\$2,000
Local Assistance (DSA)	\$0	(\$294,655)	(\$1,219,546)	(\$1,967,373)
Local Assistance (GTB)	\$0	(\$106,628)	(\$514,546)	(\$844,069)
Local Assistance (County Re	\$0	(\$15,558)	(\$16,050)	(\$16,556)
Local Assistance (Indian Ed 1	\$0	(\$2,815)	(\$10,424)	(\$16,687)
TOTAL Expenditures	<u>\$2,000</u>	<u>(\$417,656)</u>	<u>(\$1,758,566)</u>	<u>(\$2,842,685)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$2,000	(\$417,656)	(\$1,758,566)	(\$2,842,685)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$619,226)	(\$1,244,070)	(\$850,048)	(\$618,286)

Long-Term Impacts:

1. The long term reduction in general fund revenue from this bill depends on the number of eligible scholarships granted in future years. With scholarships averaging \$2,500, each scholarship would reduce general fund revenue by \$2,000 (80% x \$2,500).

Technical Notes:

1. Section 7(5)(c) requires taxpayers to notify the Department of Revenue before making a contribution for which a credit will be claimed. This section gives the department a 30 day deadline for determining whether a taxpayer may receive a credit, but does not specify what is to happen if that deadline is not met.
2. Section 2(1)(c) is difficult to interpret. The intent appears to be to require that $\frac{3}{4}$ of scholarships go to students who either are switching from a public school to a private school or previously switched after being given a scholarship. However, the wording seems to imply that a scholarship must first be granted during the school year while the student attends a public school. This appears to prevent a scholarship organization from offering public school students scholarships for the current school year or during the summer between school years.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date